



# Annual report 2015

## **Content**

Acting CEO and Managing Director's review of 2015	2
Report of the Board of Directors 2015	4
Administration 2015	21

## Acting CEO's review 2015

The start of the year was dominated by preparations for the pension reform, which enters into force at the beginning of 2017. The reform seeks to extend careers and to narrow the sustainability gap. Keva was involved in the preparations for the reform particularly as a public-sector pensions expert. Legal preparation played a key role, in addition to which, Keva, on request, made various calculations as to the implications of the different alternatives under consideration.

As regards public sector pensions, the government's proposal was not in all respects a unanimous one because the employee side objected to an increase in the lower age limits of occupation-specific retirement ages and old-age pension ages for military pensions. In the end, the Finnish Parliament decided that except for changes of a technical nature, the pension reform would be implemented in accordance with the government's proposal.

In late 2015 and 2016, Keva will be pre-occupied with issues relating to preparations for implementation of the pension reform.

The end of the year was characterised by the social and healthcare reform and ensuing new autonomous regions. The reform envisages that a significant share, an estimated half, of existing local government employees would transfer to the employ of the new regions. This change could have significant implications for public-sector pensions and the funding base of local government pensions. In spring 2015, Keva participated in the work of a working group considering employee issues. Keva has studied the implications of various alternatives on employees' pension security and on the sustainability of funding the local government pensions system.

Preparations for social and healthcare reform and the new autonomous regions are continuing during 2016 and this reform will be one of Keva's key focus areas. Keva's aim is for the regions and their companies to take out earnings-related pension insurance for their employees with Keva.

Assessments of the payroll implications in the wake of the upcoming restructuring of social and healthcare reform and regional administration are still on unsteady ground since their funding and in particular the way choice will be implemented have yet to be defined. Calculations and estimates will be made of the payment level by summer 2016,



once the guidelines for the social and healthcare services and regional administration reform have been drawn up.

Keva has studied a solution for the structural reform of pension funding to safeguard local government pensions. The solution will improve the competitiveness of local government work and ensure the management of pension liabilities that have already arisen. In the same context, the solution will ease the municipalities' financial situation. Since the law requires Keva to safeguard pension liabilities that have already arisen, Keva will re-assess pension contributions as a whole in 2016.

The outlook in the local government economy remained weak. Cost-cutting measures extending also to municipal employees resulted in little growth of the local government pension system's payroll. At year-end 2015, some 522,000 employees were insured under the Local Government Pensions Act (KuEL). This is about the same figure as a year earlier. Municipalities have increased the use of outsourced services and many other municipalities are considering outsourcing.

## Reasonable year for investments

The equity markets were very restless. The European Central Bank's balance sheet continued to grow with the securities held for monetary policy purposes. The risk of deflation grew as a result of historically low oil prices and inflation in Finland dipped into negative territory at around -0.2%. Problems in the emerging markets and the crises in global politics were reflected in the usual way as extreme volatility in share prices.

For Keva, 2015 turned out to be a very reasonable investment year. The return on private equity investments in particular was high, and investments in equities and real estate also performed well. Returns on fixed-income investments were positive despite the challenging environment.

The local government pension fund increased by a total of EUR 2.6 billion, with investment operations contributing almost EUR 2 billion and just under EUR 0.7 billion in contribution income was also transferred to the fund. Last year's return on investment operations was 4.8%. The five-year nominal return excluding capital weighting real return has been 6.3%. The capital-weighted, cumulative real return on investments since funding started in 1988 until year-end 2015 was 4.0% per annum. The pension liability fund at year end 2015 stood at EUR 44.9 billion.

For the investor of pension funds, the coming years seem to bring only further challenges. It is difficult to form a view of overall development in the coming years. While a rise in interest rates would eat into the attractiveness of fixed-income investments, it is difficult to predict when such a rise would take place. Slowing economic growth of the emerging markets has also added to the uncertainties surrounding equities. It is indeed likely that we are entering an era of greater uncertainty and lower returns than earlier in investment operations.

It is currently believed that in the next 2-3 years, the local government pension systems will switch over to using the proceeds from its funds to pay out pensions. This will bring about a new phase in investment operations as the convertibility of investments into cash grows more important.

## Keva is a cost-effective actor

Keva renewed its strategy, which has three key objectives: "we provide customer-driven, cost-effective and important services", "we ensure sustainable pension financing" and "we are a socially responsible actor".

The rapidly changing operating environment highlights the importance of following the world outside Keva and also to have the sensitivity to quickly update our strategy if needed.

Keva achieved all the targets for processing times and standard of services, which measure the uninterrupted of income of the insured. At the same time, Keva was able to also improve the quality and understandability of pension decisions. The customer satisfaction of the insured exceeded the target level. We again also had the fastest pension applications processing times in the earnings-based pension sector.

Keva is a highly cost-effective actor in the earnings-based pension sector, and our operating costs decreased year on year. Asset management costs and IT user costs were significantly lower.

We worked with customers to develop e-services for employer-customers and employee-customers. Electronic channels are already popular. In 2015, the Keva.fi website had almost 1.4 million visits and the online personal pension information service Omat eläketietosi was logged into a total of 409,000 times during the year.

Changes in the public sector are also challenging the work wellbeing of the employees who work there. This is why support to continue at work is one of the focus areas in Keva's activities. Keva estimates work disability costs in the public sector to be around 2 billion a year. Improving the management of the work disability risk could lead to significant savings in personnel costs in local government.

I would like to thank Keva's customers, knowledgeable personnel and decision-makers for their contribution to making 2015 a successful year.

In Helsinki, March 2016  
Tapani Hellstén  
Acting CEO

# Report of the Board of Directors 2015

## Contents

Operating environment	5
Customer relations and customers	6
Contribution income	7
Pensions and benefits	8
Support for continuing at work	10
Investment operations	11
Subsidiaries and associated companies	13
Pension liability fund	14
Present value of benefits accrued under the local government pension system	14
Operating costs, depreciation and statutory payments	14
Administration	15
Personnel	15
IT management	16
Internal control	16
Outlook	17
Annex: Pension Act specific tables	19

## Operating environment

The parliamentary elections in spring and the ensuing government programme talks, together with government measures ensured brisk social debate throughout the year about the Finnish economy and how to correct its course. Short-term concerns had to do with the prolonged crisis in the global economy and especially the slower growth of the Finnish economy compared with other western countries.

The government's measures and solutions to improve competitiveness and to narrow the structural sustainability gap were the subject of much attention. Solutions affecting particularly the organisation of social and healthcare services and local government administration, as well as the package to improve competitiveness would have major impacts on municipal structures, responsibilities and finances.

In autumn, the refugee crisis spread to Finland from the southern parts of Europe and, besides the question of resources, also triggered social debate among other things about social security as a whole.

The outlook for the Finnish economy remained gloomy in the wake of the global economic climate and industrial structural change. The global political situation, including sanctions against Russia, made things worse. The export market was characterised not only by slowing economic growth in China and sanctions against Russia, but also by weakened Finnish competitiveness and low market demand.

The outlook in the local government economy remained weak. Cost-cutting measures extending also to municipal employees resulted in little growth of the local government pension system's payroll. Although no statistics are yet available for 2015 as regards trends in outsourced services, the slower growth in years prior 2014 may again intensify as many municipalities have outsourced their entire social and healthcare services to private providers. Likewise, many other municipalities are considering outsourcing.

A decision was reached on the organisation of social and healthcare services and local government administration towards the end of the year and preparations for the change were initiated immediately afterwards. The reform has envisaged a significant amount of existing municipal and joint-municipal authority employees transferring to the employ of the new autonomous regions. Alongside the personnel providing social and healthcare services, it is also envisaged that certain state regional administration functions and their employees will transfer to the autonomous regions. This change could have considerable implications for public pensions and the local government pension financing base. Preparations for the reform are under way and the new autonomous regions are scheduled to begin operating at the start of 2019.

In the autumn, the Finnish parliament passed an earnings-related pension reform that will come into effect in 2017. The government proposal was not unanimous in

raising the retirement age for public sector pensions or the minimum retirement ages for military pensions. Nevertheless, parliament passed the pension reform in accordance with the government proposal also in respect of public pensions.

Given the restlessness of the equity markets in the investment year 2015, the results were reasonable. The European Central Bank's balance sheet continued to grow with the securities held for monetary policy purposes. The risk of deflation grew as a result of historically low oil prices and inflation in Finland dipped into negative territory at around -0.2%. Problems in the emerging markets and the crises in global politics were reflected in the usual way as extreme volatility in share prices.

## Changes in regulations

### Transparency of administration

Reforms were made to the Local Government Pensions Act in 2015 to increase administrative transparency.

Provisions applying to the principles of ownership steering were added to the Local Government Pensions Act. Under these provisions, Keva's Board of Directors must adopt the principles to be observed in exercising the rights arising to Keva from its holdings in other corporations. The Board of Directors had already adopted Keva's principles of ownership steering before the Act was amended.

Provisions concerning conflicts of interest and about transactions with management and their related parties were also included in the Act. Keva's Board of Directors adopted written operating principles concerning conflicts of interest and transactions with related parties during the report year.

New provisions in the Local Government Pensions Act also include rules about Keva's insiders and a public register of the securities owned by insiders. At Keva, an insider refers to members and deputy members of Keva's Board of Directors, the CEO and auditor and an employee of the its auditing firm who has principal responsibility for signing off Keva's audit. Keva's insiders also include the chairman and deputy chairman of Keva's Council and any employee who has an opportunity to influence decisions on investing Keva's funds or who otherwise has regular access to insider information concerning such shares of financial instruments. Keva published its insider register on its website during the report year and the register is maintained using Euroclear's Sire system.

A provision concerning positions of trust was also added to the Local Government Pensions Act, whereby Keva must maintain a public register of positions of trust. The register must contain the board memberships held by members of Keva's Board of Directors and CEO on the boards of other governing bodies. The register must also include information about the memberships of governing bodies held by other senior management as part of their responsibilities or who make or prepare investment decisions on behalf of Keva.

Keva has earlier published the positions of trust held by members of its Management Group.

### Public Sector Pensions Act and Keva Act

During autumn 2015, the Finnish Parliament debated bills concerning pension reform, as well as new laws concerning public sector pensions and Keva's activities: the Public Sector Pensions Act and the Keva Act. The Finnish Parliament passed the new acts in the autumn and they will enter into force at the beginning of 2017.

Under the new legislation, the Local Government Pensions Act, the State Employees' Pensions Act, the Evangelical-Lutheran Church Pensions Act and the pension regulations applying to the Social Security Institution of Finland (Kela) employees will be incorporated into the new Public Sector Pensions Act. The Public Sector Pensions Act will also lead to changes in pension reform. The retirement age will be raised gradually from the current age of 63 years to 65 years. Thereafter, the earliest eligibility for retirement will be linked to life expectancy. Pension will start to accrue from the age of 17 at a rate of 1.5% of pay a year for all ages and the existing age-linked higher accrual rates will be phased out. The existing part-time retirement option will be replaced by a partial early retirement pension beginning at the age of 61, based on 25% or 50% of the pension. The earnings-related pension scheme will also include a new pension in the form of a years-of-service pension, which will enable employees who have had a long working life in a strenuous or mentally fatiguing job to be able to retire before the earliest old-age retirement age.

The Keva Act will continue to provide for Keva's governance, financing of the local government employees pension scheme and Keva's oversight. Most of the provisions in the Keva Act have been taken directly from the Local Government Pensions Act without changing their content. New provisions include those about the Board of Directors and its members and the competence requirements for Keva's management. The Keva Act requires members of the Board of Directors to be of good repute and to possess good knowledge of earnings-related pension insurance activities. In addition, the Board of Directors must have a knowledge of investment operations. The statutory competence requirements applying to the CEO and deputy CEO are a higher university degree, diverse experience required by the job and proven practical leadership skills and experience. The Keva Act also has new provisions applying to risk management, internal auditing and internal control.

### State Employees' Pensions Act

The calculations of military pensions under the State Employees' Pensions Act were overhauled during the report year. The change simplified pension calculation to save information system and staff costs. Pension levels remain unchanged. The new rules will be applied to pension events occurring in 2016 and later.

## Customer relations and customers

Keva has around 2,300 employer customers, of which just under 1,000 are local government organisations. The State's employer customers number around 1,000 and there are also around 300 parish or parish union employer customers. Kela, the Social Security Institution of Finland is also an employer customer of Keva.

Keva manages the earnings-related pension services of around 1.3 million public sector employees and pension recipients. Of these, around 687,000 are insured and 570,000 are pension recipients.

Last year, 2015, was the first year under the new customer relations function organisation. During 2015, the services provided to employer customers were redefined and the activities of customer relations teams to support customer managers also became established. Last year also saw the introduction of new service models for both employer and employee customers.

Customer managers had around 250 meetings with customers during the year. In addition, management held 11 partnership road shows, which are aimed at improving customer experience.

In 2015, Keva received nearly 68,000 pension and benefit applications, of which 22% were electronic applications (21% in 2014). Local government pension ombudsmen forwarded 15% of all pension applications to Keva (15% in 2014). Keva received 3% of applications (6% in 2014) through the online Työeläke.fi services available to Keva's employee customers and 3% of applications through the personal pension information service Omat eläketietosi. Electronic applications accounted for 50% of old-age pension applications (49% in 2014).

During the year, 139,700 employee customers called Keva. Of these calls, 107,300 concerned general pension advice and the rest pension payments. There were 3,300 fewer calls than in 2014. Keva sent out 14,300 replies to written enquiries from employee customers in 2015. Keva's pension advisory service served 4,000 employee customers. During the year, the customer service desk switched over to using an appointment system and starting in July, the advisory service operated by appointment in the afternoons. Since the start of 2016, the advisory service has operated by appointment only.

The online personal pension information service Omat eläketietosi was upgraded during the year. The improved service now enables employee customers to submit their pension applications electronically and to view the various documents relating to their pension matters. Customers can now be notified by text message or email about the arrival of a new document. The service was logged into a total of 409,000 times during the year (303,000 in 2014).



In 2015, the Keva.fi website had an all-time record of almost 1.4 million visits, 15% more than in 2014. Keva's extranet for employers was logged into around 44,800 times in 2015 (around 40,000 times in 2014).

Work began on upgrading the Keva.fi website and the extranet service for employers in order to improve customer experience.

In a customer satisfaction survey conducted during the report year, 70% of employer customers thought that Keva had succeeded well or excellently in its operations. The corresponding figure for employee customers was 86%. There was a desire for greater focus on online services, as well as work wellbeing and work capacity services. Keva's services were largely considered as good and as having improved over the past year. Customers were left with a good, positive impression of customer advice in particular and were satisfied with its operations. Keva is regarded as being a prompt, reliable, relevant, knowledgeable and friendly provider of pension services. The pension application process is smooth, clear and easily understood. Customer feedback indicates room for development mostly in individual customer experiences.

## Contribution income

At year-end 2015, some 522,000 employees were insured under the Local Government Pensions Act (KuEL). This was around 1,000 fewer than a year earlier. The total payroll for employees insured under the Act was EUR 16,820 million, which was EUR 150 million (0.9%) higher than in 2014.

Local government contribution income totalled EUR 5,013 million in 2015 (EUR 4,971 million in 2014), which was 29.81% of the payroll (29.82% in 2014). Contribution income increased by EUR 43 million (0.9%) compared to the previous year. Local government contribution income comprised four different parts: the employer's and employee's pay-based contributions, the employers contributions based on pension expenditure and early retirement expenditure.

Pay-based contributions were collected in the amount of EUR 3,934 million, which was 3.1% higher than in 2014. The employees' share of the contribution was EUR 1,041 million and the employers' share was EUR 2,893 million. The pay-based contribution in 2015 averaged 23.39% of salaries, which was 0.51 percentage units higher than in 2014. The breakdown of the contribution in 2015 is that employees aged under 53 were charged 5.55%, employees aged 53 and over were charged 7.20% and employers were charged 17.20%.

Local government contribution rates 2006–2015						
Year	Employer's contribution rate				Employee's pay-based contribution	Average total
	Pay-based contribution	Pension expenditure-based contribution	Early retirement pension expenditure-based contribution	Total		
2015	17.20	5.62	0.80	23.62	6.19 <sup>1)</sup>	29.81
2014	16.85	6.03	0.91	23.79	6.03 <sup>2)</sup>	29.82
2013	16.45	6.64	0.91	24.00	5.58 <sup>3)</sup>	29.58
2012	16.35	6.21	0.99	23.55	5.57 <sup>4)</sup>	29.12
2011	16.10	6.45	1.00	23.55	5.10 <sup>5)</sup>	28.65
2010	15.60	6.66	1.29	23.55	4.87 <sup>6)</sup>	28.42
2009	15.90	6.60	1.10	23.60	4.62 <sup>7)</sup>	28.22
2008	16.00	6.62	1.08	23.70	4.42 <sup>8)</sup>	28.12
2007	16.50	6.54	0.79	23.83	4.61 <sup>9)</sup>	28.44
2006	17.10	6.11	0.50	23.71	4.60 <sup>10)</sup>	28.31

<sup>1)</sup> 5.70% for people under 53 and 7.20% for people aged 53 or over

<sup>2)</sup> 5.55% for people under 53 and 7.05% for people aged 53 or over

<sup>3)</sup> 5.15% for people under 53 and 6.50% for people aged 53 or over

<sup>4)</sup> 5.15% for people under 53 and 6.50% for people aged 53 or over

<sup>5)</sup> 4.70% for people under 53 and 6.00% for people aged 53 or over

<sup>6)</sup> 4.50% for people under 53 and 5.70% for people aged 53 or over

<sup>7)</sup> 4.30% for people under 53 and 5.40% for people aged 53 or over

<sup>8)</sup> 4.10% for people under 53 and 5.20% for people aged 53 or over

<sup>9)</sup> 4.30% for people under 53 and 5.40% for people aged 53 or over

<sup>10)</sup> 4.30% for people under 53 and 5.40% for people aged 53 or over



In accordance with the decision of Keva's Council, Keva charged EUR 946 million in pension expenditure-based contributions from its member organisations, which equated to 5.62% of the payroll. The pension-expenditure based contribution was EUR 59 million or 5.9% less than in 2014.

In accordance with the decision of the Council, Keva charged EUR 134 million in early retirement pension expenditure-based contributions, which was 0.8% of the payroll.

Financial support is a benefit equivalent to group life insurance paid to the beneficiaries of a deceased local government officeholder or employee. At year-end 2015, 685 member organisations had arranged for financial support through Keva. Keva collected around EUR 6.1 million in financial support contributions in 2015. This was around EUR 0.5 million less than in the previous year.

Keva received some EUR 224 million in contribution from the Unemployment Insurance Fund. This is around EUR 30 million more than in 2014.

By law Keva is also responsible for the calculation and collection of State pension contributions. Keva collects these contributions directly in the State Pension Fund's bank account, but is responsible for all related practical matters. In 2015, State pension contributions amounted to around EUR 1.7 billion. State pension contributions do not impact Keva's profit and loss account or balance sheet.

## Pensions and benefits

Keva achieved all the targets for processing times and standard of services, which measure the uninterrupted of income of the insured. At the same time, Keva was able to also improve the quality and understandability of pension decisions. The customer satisfaction of the insured exceeded the target level.

During the report year, Keva prepared for the enforcement of the pension reform entering into force at the beginning of 2017. Preparations were made for the new method of calculating military pensions by checking the information of around 10,000 persons in the personal data files and register and by calculating in advance their paid-up rights applying to their pension accruing earlier.

### Applications received and decisions

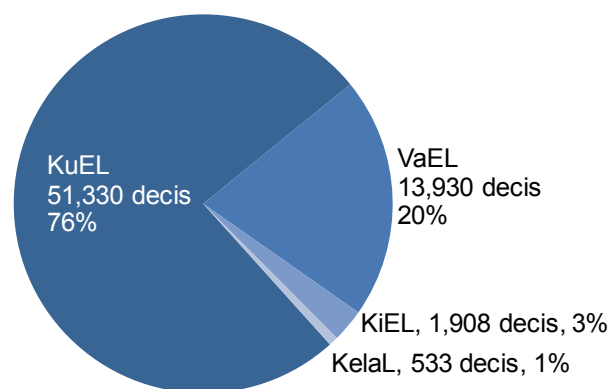
In 2015, Keva issued 67,701 decisions, of which 59,308 concerned actual pension matters, 8,016 rehabilitation and the remainder benefits such as financial support. Keva received a total of 67,763 applications, of which 59,308 concerned actual pension matters.

The figures include all decisions about applications received based on the Local Government Pensions Act (KuEL), the State Employees' Pension Act (VaEL), the Evangelical Lutheran Church Pensions Act (KiEL) and the National Pension Institution Act (KelaL) applying to Kela's salaried employees.

Detailed tables for each pension act can be found in the annex at the end of this report.

Decisions under the Local Government Pensions Act (KuEL) accounted for by far the most decisions, 51,330, which equates to 75.8% of all decisions Keva issued in 2015. Keva issued 13,930 State Employees' Pension Act (VaEL) decisions, 1,908 Evangelical Lutheran Church Pensions Act (KiEL) decisions and 533 National Pension Institution Act (KelaL) decisions.

### Keva's decisions by pension act



Keva was well within its targets for standard of service and processing times set for 2015 and speeded up processing times for almost all pension benefits. The standard of service indicator showed that Kela issued decisions in time in 93.5% of cases (90.8% in 2014).

Fastest processing times were for survivor's pension, where a decision was issued in 10 days. Processing times averaged 22 days for old-age pensions, 19 days for part-time pensions and 13 days for rehabilitation decisions. The longest processing times were for disability pensions, which took 39 days. Keva processed applications for all pension benefits 11-34 days faster than private institutions on average.

The number of decisions rose by 2,833 (4.4%) compared to 2014.

The highest relative increase (46%) was seen in rehabilitation decisions. The increase in decisions was largely attributable to a law amendment entering into force at the beginning of 2015 whereby pension institutions must issue an applicant for a disability pension with a preliminary decision about his or her right to vocational rehabilitation if the applicant satisfies the requirements. The number of decisions issued in respect of actual rehabilitation plans rose 17.6%, which is not the same proportionate rise.

Also more decisions concerning part-time pensions were issued than earlier (23.2%). The age limit for part-time pensions was raised in 2014 and this resulted in fewer applications than normal during 2014. After 1 January 2017, part-time retirement will no longer be possible.

Fewer decisions concerning survivors' pensions were issued than in the previous year. There were no significant

changes in the numbers of decisions issued in respect of old-age and disability pensions. The percentage of partial disability pensions rose and partial disability pensions accounted for more than one in three decisions issued in respect of disability pensions.

A total of 40,142 decisions were issued in respect of new pension applications. Of these, 36,990 decisions were favourable. The reject rate for new applications for disability pensions was 21.4% (20.9% in 2014). The rejection rate for private institutions for new applications for disability pensions averaged 30.8%. Concerning rehabilitation decisions, 13.4% were rejected (11.9% in 2014). The corresponding figure for private institutions was 20.3%.

The number of applications rose more than the number of decisions compared to 2014. The highest relative increase (31.1%) was in applications for part-time pensions. More applications were also received for old-age pensions (6.0%) and partial disability pensions (6.7%) than a year earlier. An

amendment to the law on 1 January 2015 resulted in an increase in the number of rehabilitation applications. Under the amendment, preliminary decisions concerning rehabilitation issued to disability pension applicants are now technically registered as applications.

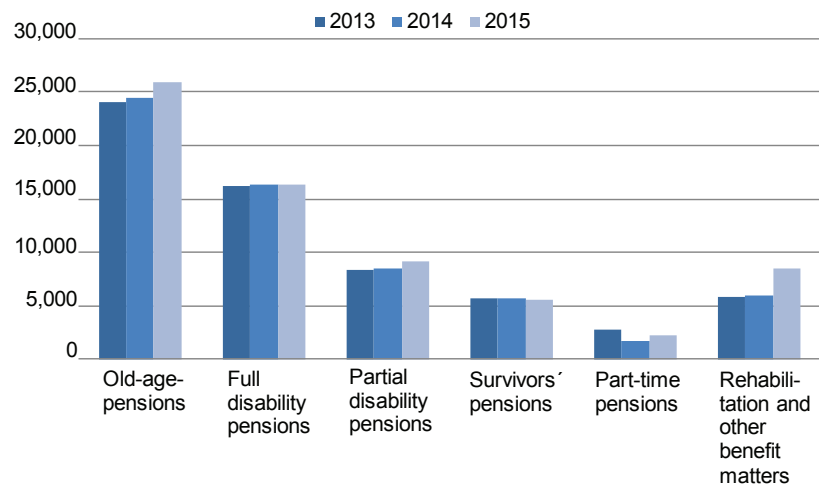
The number of pension applications is expected to rise somewhat in the near future if the number of persons insured for an earnings-related pension in the public sector and the structure remains the same as it is now. Based on the age and occupational structure of the persons currently insured, no surprising changes are expected in pension applications. The pension reform entering into force in 2017 might slightly increase application numbers. In addition, the changes (social and healthcare reform and other service structure changes) taking place in the operating environment may well have major implications on the numbers of persons insured and thus the numbers of applications.

Total processing times for pensions in 2015				
Pension benefit	Processing time, days		Change, days	Private institutions 2015
	2015	2014		
Old-age pension	22	33	-11	46
Part-time pension	19	28	-9	53
Disability pension	39	38	1	63
Survivors' pension	10	16	-6	21
Rehabilitation	13	15	-2	32

Source: Finnish Centre for Pensions

Number of all decisions by pension benefit 2015 and 2014			
Pension benefit	2015	2014	Change, %
Old-age pensions	26,035	25,761	1.1
Full disability pensions	16,339	16,617	-1.7
of which new decisions	5,845	5,906	-1.0
Partial disability pensions	9,082	8,779	3.5
of which new/preliminary decisions	3,675	3,564	3.1
Survivors' pensions	5,611	5,919	-5.2
Part-time pensions	2,241	1,819	23.2
Other pension matters	377	483	-21.9
Rehabilitation decisions	8,016	5,490	46.0
<b>Total</b>	<b>67,701</b>	<b>64,868</b>	<b>4.4</b>

### Number of applications received by Keva by pension benefit



## Rectification procedure of pension decisions

In 2015, Keva processed in the “self-rectification procedure” a total of 1,364 complaints submitted to the Pension Appeal Board (TELK) concerning decisions it had issued. Of these, 1,014 related to the assessment of work capacity. Keva rectified 12% of all complaints and 9% of complaints concerning the assessment of work capacity. Other complaints were submitted for the consideration of the Board.

In 2015, Keva also processed a total of 274 appeals lodged with the Insurance Court concerning decisions issued by the Pension Appeal Board. Of these appeals, 235 concerned the assessment of work capacity and Keva rectified 0.9% of these.

The Pension Appeal Board changed 8.2 % of the decisions rejected by Keva about which a complaint had been submitted. The Insurance Court changed 11 % of Keva’s decisions which had been appealed.

## Persons retiring

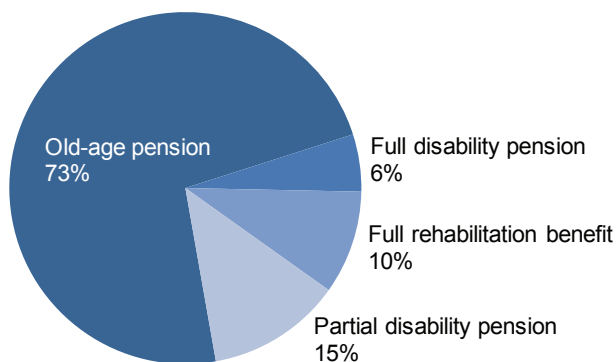
The numbers of persons retiring from the service of local government, the State, the church or Kela rose only slightly (2.7%), which was as expected. A total of 20,604 employees retired.

The average age of the persons retiring was 61.0 years. People retired at an average age of 63.6 years in 2015. Old-age retirement accounted for 72.8% of all persons retiring.

Musculoskeletal disorders and mental health problems were the most significant reasons for work incapacity and affected a total of 66% of persons retiring on a disability pension.

The expected effective retirement age was 61.4 years (61.3 years in 2014) for a 25-year-old local government employee and 62.3 years (62.0 years in 2014) for a State employee (excluding the military). Expected retirement age defines the age at which, on average, 25-year-old employees would retire if, in future, they retire in exactly the same pat-

### Percentage of persons retiring in 2015 by pension benefit



tern as in the report year. The expected effective retirement age for a 25-year-old in the entire earnings-related pension sector in 2015 was 61.1 years.

## Pensions paid

Pension expenditure under Local Government Pensions Act was EUR 4,545 million, which was EUR 195 million (4.5%) higher than in 2014. At year-end, the number of pension recipients totalled around 377,000, which is about 1% more than in 2014.

In 2015, Keva paid out EUR 4,440 million in State pensions, an increase of around EUR 89 million (2%) compared to the previous year. At year-end, the number of State pension recipients was around 263,000, a decrease of around 3% compared to a year earlier. Keva paid out around EUR 180 million in Evangelical-Lutheran Church pensions, an increase of around 3% compared to 2014. The corresponding amount for pensions paid out to Kela’s salaried employees was around EUR 93 million, up by around 3% compared to the previous year.

The State, the Evangelical-Lutheran Church and the National Insurance Institution of Finland (Kela) funded their own pensions so that they paid Keva monthly in advance an amount specified by the Ministry of Finance. This sum was adjusted at the end of the year against actual pension expenditure. For 2015, Keva will refund EUR 32.2 million to the State, EUR 3.9 million to the Evangelical-Lutheran Church and EUR 2.1 million to Kela. These items were recognised in the financial statements as adjustments to advance payments.

## Support for continuing at work

Keva achieved its targets set for the local government and State sectors in respect of support for continuing at work. The percentage of persons retiring at the earliest age of 63 years accounted for 60.5% of all persons retiring in the local government sector and 62.5% in the State sector. This was 4.5 percentage units and 3.5 percentage units respectively above target. The percentage of persons retiring on partial disability pension accounted for 47.3% of all persons retiring on disability pension in the local government sector and 42.1% in the State sector. This was 4.3 percentage units and 2.1 percentage units respectively above target.

Keva offered its employer customers a range of services to extend careers collected under the Kaari brand. These services included consultation on work wellbeing and work capacity management, active support, change support, management of disability costs, development of cooperation in occupational healthcare. In addition, Keva organised

training, coaching, seminars and workshops to support career extension. More than 280 persons took part in the workshops.

Three studies were carried out during the year on the topics of the strategic management of work wellbeing and work capacity, rejection decisions relating to disability pensions and the work wellbeing of municipal leaders.

The Kaari work wellbeing survey service supported work wellbeing management in nine organisations in the municipal sector. Elected officials were integrated more intensely to work wellbeing management.

The Kaari calculator service estimated the disability costs incurred by municipal employers for 23 customers, with an analysis for 16 customers of their own work wellbeing management. The service production and reporting service was upgraded, which will enable a growth in customer numbers.

The enhanced Work Wellbeing Strategically coaching event developed strategic employee and work wellbeing management. A total of 30 persons from 10 organisations took part in coaching.

In future, customers will be served online more than earlier also in matters concerning extended career matters. An online tool to self-assess active support was launched.

The main stakeholder programme was the leadership training for supervisors and middle management programme (EKJ), which took place in collaboration with the Association of Finnish Local and Regional Authorities, KT Local Government Employers and FCG. Keva initiated a pilot project with the City of Helsinki aimed at developing the work wellbeing and work capacity management service received by large cities.

Efforts were made to improve the effectiveness of vocational rehabilitation by promoting the start of the rehabilitation process as early as possible. As a follow-up of the so-called 150 rehabilitation investigation, the so-called 30-60-90 rehabilitation investigation was initiated with more than 30 employers taking part. The vocational rehabilitation team arranged around 70 stakeholder meetings and training events.

During the year, medical experts took part in more than a hundred consultation, training and negotiation events organised in collaboration with occupational health carers and employers.

Around 200 people took part in the situational reviews provided by Keva for people whose disability pension applications had been rejected.

## Investment operations

From the investor's perspective, 2015 was a very eventful year. The equity markets were very restless. Return fluctuations, especially on the share markets, were very great, but at the end of the year the overall return on shares turned out to be good. Nevertheless, there were significant fluctuations between markets.

The reasons for restlessness on the equity markets were already familiar from previous years. Spluttering growth of the global economy was a cause for continued concern. The markets were worried about the business news, particularly about China, the growth engine. The prices of oil and commodities in general plummeted.

For Keva, 2015 turned out to be a very reasonable investment year. The return on private equity investments in particular was high, and investments in equities and real estate also performed well. Returns on fixed-income investments were positive despite the challenging environment. Hedge and commodity investments returned a loss in the wake of difficulties on the commodity markets.

At the beginning of 2015, the market value of Keva's investments was EUR 41,386 million. At year-end 2015, the market value was EUR 40,990 million. The market value of investments used to calculate the return includes not only the assets mentioned above, but also accrued income, including accrued interest, as well as other items, a total of EUR 3,116 million. Taking these items into account, the market value of tied-up capital totalled EUR 44,214 million (EUR 41,548 million at year-end 2014). This break-down of imputed returns is used to calculate the break-down for each asset class.

Investments are divided into asset classes, which are fixed-income, equity, real estate, private equity and hedge and commodity investments. Fixed income investments consist of loans, bonds and money market investments. Keva manages some of its investments itself and some through external asset managers. Derivative instruments are used to hedge targeted returns. The effects of these instruments on allocation by asset class are taken into account in the figures depicting the risk-adjusted distribution of investment assets.

Of the different asset classes, the best result was generated by private equity investments (19.2%), listed equities and equity funds (8.7%) and real estate investments (8.1%). Fixed-interest investments generated 0.4% and hedge and commodity investments returned a loss of 1.2%.

At year-end 2015, the market value at risk of Keva's investments were: fixed-income investments (including the impact of derivatives) 44.4%, listed equities 36.2%, real estate 6.7%, private equity investments 6.1% and hedge and commodities investments 6.6%.

In 2015, Keva's total investment return at market value after expenses was 4.8%. The capital-weighted, cumulative real return on investments since funding started in 1988 until year-end 2015 was 4.0% per annum. The real return on investments excluding capital weighting over the same period was 5.3%. The five-year nominal return excluding capital weighting real return has been 6.3% and the real return 4.8%. The corresponding figures for ten years are 5.3% and 3.5%.

### Fixed-income investments

The year started with exceptional low interest rates. The courses of actions taken by the European Central Bank (ECB) and the US Federal Reserve System (FED) diverged during the course of 2015. The ECB had and has to continue to stimulate the markets, whereas the FED had already shifted towards monetary tightening measures.

At year-end 2015, Keva's investments in bonds and fixed-income funds had a total market value of EUR 19,895 million. A total of EUR 4,697 million or 23.6% of the bond portfolio was allocated to external managers (including funds). The market value return on these bonds was 0.3%.

At year-end 2015, loans receivable (excluding those granted to Keva's own companies) totalled EUR 457 million. This loan portfolio decreased by EUR 81 million during the year. The return on the market value of these loans was 0.9%.

At year-end 2015, other money market instruments and deposits totalled EUR 4,121 million.

Returns totalling EUR 216 million were booked on fixed-income investments. The market value return on fixed-income investments was 0.4%.

### Equity investments

Equity markets were very restless in 2015. The start of the year saw a strong rise in equity markets, until the markets in practice collapsed in the wake of concerns about, among other things, development in China. In the autumn, the situation began once more to correct itself, but towards the end of the year concerns about the global economy and the measures taken by central banks once again triggered a fall in equity prices.

The MSCI index (EUR), which illustrates the average trend in the world's equities, closed at 10.5% at year-end 2015, compared to 19.2% a year earlier. Measured by the Stoxx 600 index, European equities rose 9.6% (7.2% in 2014), whereas Asian equities (MSCI Asia-Pacific) were 9.3% (13.6% in 2014).

At year-end 2015, the total market value of Keva's listed equities was EUR 15,738 million. A total of EUR 12,879 million or 81.8% of the entire equity portfolio was allocated to external managers (including funds).

Dividends received from equity investments totalled EUR 98 million. The market value return on investments in listed equities was 8.7%.

### Real estate investments

Keva's real estate portfolio comprises direct investments in Finnish and Nordic real estate and real estate shares, as well as investments in Finnish and foreign real estate funds. Real estate funds account for about a third of Keva's real estate investments.

Keva has sought to reduce the relative share of office buildings in its real estate portfolio by acquiring shopping centres and residential buildings. In addition, in the direct real estate portfolio, Keva began investing in the other Nordic countries, starting with Sweden, in 2015.

At year-end 2015, the market value of real estate and real estate shares totalled EUR 2,954 million, of which real estate funds accounted for EUR 732 million. A further EUR 219 million was tied up in real estate companies in the form of traditional loans. Investment commitments in Finnish and foreign real estate funds totalled EUR 1,472 million, of which EUR 378 were undrawn commitments.

At year-end 2015, the rentable floor space of the 127 real estate companies own by Keva totalled around 870,000 m<sup>2</sup> and the number of leases was 4,100. Net rental income was EUR 100 million. The market value return on direct real estate investments was 6.0%. Calculated on the basis of the Finnish Institute for Real Estate Economics' (KTI), the total return on direct real estate investments was 6.4%.

The market value return on all real estate investments was 8.1%.

### Private equity, hedge fund and commodity investments

The private equity investment environment continued to be better than anticipated in 2015 despite very modest economic development. For hedge funds, the environment was more difficult than in earlier years and returns were much lower than they had been for years. The year was also an exceptionally challenging one on the commodity markets.

At year-end 2015, the market value of Keva's equity investments totalled EUR 2,694 million, including investments in unlisted companies. At year-end 2015, the market value of hedge funds totalled EUR 2,933 million. Investment commitments made to private equity investments at year-end totalled EUR 5,569 million, of which undrawn commitments amounted to EUR 2,568 million.

The market value return on private equity investments was 19.2%. Hedge and commodity investments made a loss of 1.2%.



<b>Investments at fair value at 31 December 2015</b>		
	EUR million	%
Fixed income	19,895	45.0
Equities	15,738	35.6
Real estate	2,954	6.7
Hedge funds and commodities	2,933	6.6
Private equity	2,694	6.1
<b>Total</b>	<b>44,214</b>	<b>100</b>

<b>Investments by currency at fair value at 31 December 2015</b>		
	EUR million	%
EUR	23,283	52.7
USD	18,238	41.3
JPY	1,172	2.7
GBP	875	2.0
CHF	248	0.6
SEK	177	0.4
Other	221	0.5
<b>Total</b>	<b>44,214</b>	<b>100</b>

<b>Geographical spread of investments at fair value at 31 December 2015</b>		
	EUR million	%
Finland	9,227	20.9
Europe (excl. Finland)	15,559	35.2
North America	11,469	25.9
Emerging markets	4,174	9.4
Asia (excl. Japan)	1,808	4.1
Japan	1,662	3.8
Other	314	0.7
<b>Total</b>	<b>44,214</b>	<b>100</b>

## Investment strategy

Keva's investment strategy determines the central principles for funding the local government pension system and the strategic objectives set for investment operations are derived from these.

The Board of Directors guides Keva's long-term investment operations through the investment strategy. In the short-term, the Board of Directors guides investment operations for a given year through an approved plan, which also includes investment authorisations.

The investment strategy sets out the principles and procedures that will help to achieve the targets set for the investment operations in the financial strategy. The key part of the investment strategy is to determine the principles to be complied with in steering investment operations.

Keva's Board of Directors approved the current investment strategy on 8 May 2014.

## Social responsibility

Keva's Board of Directors has decided on the most important principles of social responsibility to be complied with in Keva's investment operations. The Board of Directors has also outlined the ways of working and procedures to be used to ensure social responsibility is part of the investment process.

The Board receives regular reports on how social responsibility has been applied in investment operations. Keva uses information produced by an external social responsibility assessment provider to supplement its own ways of working relating to investment processes. The report to the Board also describes the practical measures initiated as a result of observations.

## Subsidiaries and associated companies

At year-end 2015, Keva owned in whole or in part a total of 126 Finnish real estate companies. This is two more than a year earlier. Keva owned 105 real estate companies in full and had a majority holding in 10 others. There were five associated companies (holding of 20-50%). The holding was less than this in six real estate companies. In addition, Keva set up a company in Sweden during 2015 to manage real estate investments in that country. Keva has a 98% holding in the company.

In addition to real estate companies, Keva held the entire capital stock of Kuntasijoitus Oy KE, a 30.66% stake in Municipal Finance Plc and a 25.5% stake in Exilion Capital Oy, which manages the Exilion Capital Real Estate Fund.

## Pension liability fund

The difference between Keva's annual income and expenditure is added to or deducted from funds in the pension liability fund. At year-end 2015, the fund stood at EUR 44,949 million, which was EUR 2,643 million (6.2%) higher than a year earlier.

## Present value of benefits accrued under the local government pension system

Based on the provisions of pension legislation, the value of the benefits that have accrued in the local government pension system, but which have not yet been paid out clearly exceeds the value of the pension liability fund. The present value of the accrued benefits was estimated to have been EUR 102 billion at year-end 2014. During 2015, the value increased by EUR 3 billion to EUR 105 billion.

Since the value of the pension liability fund in 2015 grew by less than the present value of benefits, the present value of unfunded benefits grew by just under EUR 0.5 billion during the year.

The present value of accrued benefits is estimated based on the best available information on mortality and other trends. However, this is just an indicative estimate of the current situation of the pension system. Changes in the calculation premises may alter it significantly.

## Operating costs, depreciation and statutory payments

Operating costs and depreciation before payments received (gross operating costs) in 2015 totalled EUR 87.7 million, which is EUR 13.5 million (13.3%) less than in 2014.

The largest cost item was personnel costs, which were EUR 40.5 million, EUR 0.3 million (0.7%) smaller than for the previous year. Other operating costs decreased significantly by EUR 12.5 million. This was mainly attributable to two reasons. A change in the way of managing investments meant that asset manager fees invoiced were around EUR

7 million lower than in 2014. In future, asset management fees will be charged directly from returns on investments and will not be shown in Keva's profit and loss statement. IT operating costs also decreased significantly, by around EUR 4.9 million (roughly 16%) compared to the previous year. This was because of lower invoicing by Arek Oy for joint information system services and because of active, successful tendering.

Keva received reimbursements for operating costs and depreciation totalling around EUR 22.4 million (EUR 25.3 million in 2014) for the management of other than local government pensions. Of this sum, the State paid around EUR 18.9 million, the Evangelical-Lutheran Church around EUR 2.2 million and the Social Insurance Institution of Finland (Kela) around EUR 0.7 million. Reimbursements were smaller compared to the previous year because Keva's overall costs were lower and the share of Keva's cost of managing all pension events paid by the State, the Evangelical-Lutheran Church and Kela decreased.

Keva's net operating costs, including reimbursements received, reflect the costs of implementing local government pensions. Net operating costs were EUR 65.3 million, which is EUR 10.6 million (13.9%) less than in the previous year.

When examined by function, the gross costs of pension operations were EUR 51.5 million, just under 8% less than in the previous year. Taking into account reimbursements received, the costs of pension operations decreased by 5%. The costs of investment operations were EUR 18.7 million, around 26% less than in 2014. No reimbursements were allocated to investment operations. Gross operating costs for administration were EUR 17.5 million, 12.5% less in the previous year. Taking into account reimbursements received, the operating costs for administration decreased 14%.

Capital expenditure in IT software and hardware, machinery and equipment totalled EUR 2.3 million, which was EUR 1.0 million less than in the previous year. IT capital expenditure accounted for more than 90% of all investments in property, plant and equipment. The largest items of capital expenditure were on replacing the contributions and pension payment systems and on replacing the hardware base.

Depreciation according to the plan in 2015 was EUR 6.3 million, EUR 0.7 million less than in 2014.

Statutory payments refer to Keva's share of the costs of the Finnish Centre for Pensions, the Pension Appeal Board and the Financial Supervisory Authority. These costs totalled EUR 8.8 million, EUR 1.4 million less than in 2014. The State, Evangelical-Lutheran Church and Kela paid around EUR 2.5 million of these costs.

In total, Keva received EUR 24.4 million in reimbursements from the State, Evangelical-Lutheran Church and Kela, which is EUR 3.4 million less than in 2014.



## Administration

Keva's highest decision-making authority is the Council, the members of which are appointed by the Ministry of Finance for one municipal election period at a time. The Council has 30 members, 26 of whom are appointed on the basis of a proposal submitted by the Association of Finnish Local and Regional Authorities based on the results of the municipal elections. Four members are appointed based on a proposal by the main municipal negotiating organisations. The term of the current Council began in 2013 and, under the provisions of the new Keva Act, expires at the end August 2017.

The Council's chairman was Harri Jokirata, Deputy Mayor of Seinäjoki and deputy chairman was Maarit Ojavuo, an IT expert from Kajaani.

During 2015, the Council convened four times. The attendance rate at the Council's regular meetings was 89%. When the attendance of deputy members is included, the attendance rate was 94%. Council members receive an attendance fee of EUR 400 for meetings, in addition to which the chairman receives an annual fee of EUR 9,000 and the deputy chairman receives EUR 8,000. Council members were paid total attendance fees of EUR 70,175.

Keva's administration is the responsibility of the Board of Directors, which the Council elects for term of office lasting two years. The Board elected for the 2015–2016 term of office was chaired by Anna-Kaisa Ikonen, mayor of Tampere. Kari Nenonen, Mayor of Vantaa served as deputy chairman. Other Board members were Heini Jalkanen, Business Director; Sallamaari Muhonen, communications consultant; Harri Virta, managing director; Raimo Vistbacka LL.M.; Markus Lohi, since 24 September 2015, Member of the Finnish Parliament, and who was elected to replace Juha Rehula, who was appointed a government minister on 1 June 2015; Risto Kangas, Director at the Negotiation Organisation for Public Sector Professionals (JUKO) and Päivi Niemi-Laine, Chief Executive Officer at the Union of Local Government Employees. Under the new Keva Act, the term of office of the current Board of Directors expires at the end of August 2017.

The Board of Directors convened 11 times during the report year. The attendance rate of the Board's ordinary members was 91%. When the attendance of deputy members is included, the attendance rate was 95%. The Council's chairman and deputy chairman also have the right to attend and speak at Board meetings. Board members receive an attendance fee of EUR 400 for meetings, in addition to which the chairman of the Board receives an annual fee of EUR 18,000, the deputy chairman EUR 10,000 and members EUR 8,000. Board members were paid total attendance fees of EUR 52,400.

In addition to the Board of Directors and Council, Keva's statutory bodies include the Investment Advisory Committee, the members of which are appointed by the Board for its

term of office. The Investment Advisory Committee includes representatives of municipal negotiating organisations, the Ministry of Finance and the Ministry of Employment and the Economy. Seppo Juntti, Financial Director, City of Salo, acted as chairman of the Investment Advisory Committee and Terttu Savolainen, Director of the Regional Administrative Agency of Northern Finland, acted as deputy chairman. The Investment Advisory Committee did not convene during the report year.

The Working Life Development Working Group is a body defined in the Standing Orders that is tasked with developing measures to maintain the health and work capacity of municipal employees. Of the 12 working group members, six are chosen on the basis of proposals by the main municipal negotiating organisations. The chairman of the Working Life Development Working Group was Aki Lindén, Chief Executive officer of the HUS Joint Authority. The Group convened for three meetings during the report year.

CEO Jukka Männistö resigned from his position on 30 September 2015 and the Council accepted his resignation on 8 October 2015. Tapani Hellstén served as acting CEO for the rest of the year. The vacancy for a CEO was announced on 29 October 2015. Meeting on 16 February 2016, the Council appointed Timo Kietäväinen MScSocSc as Keva's new CEO. Timo Kietäväinen assumes his new post on 1 May 2016.

Tapani Hellstén and Kimmo Mikander, who took up the post on 23 March 2015, served as deputy CEOs. Hellstén's primary area of responsibility is pension and working life services, whereas Mikander is responsible for customer relations.

## Personnel

At year-end 2015, Keva employed 546 people (557 at year-end 2014), of whom 16 (23 in 2014) were fixed-term employees. Keva is female-dominated, which is typical of the earnings-related pensions sector. Women account for 71.1% of Keva's personnel.

Keva builds on the competence of its people through training and development projects and by new hires.

The development of a work culture remains a key focus area at Keva. Coaching package for the internal agents of change was completed in the spring and during the year those taking part, were involved in developing the activities of the organisation as, among other things, strategy workshop leaders. In addition, the Expert 2.0 team received training and those participating focused on work development.

During 2015, supervisors were offered coaching-based leadership training, coaching in small groups and support in challenging supervisor-employee discussions. Other training themes include change agility, practical employment matters

and collaboration between employees and the employer. Supervisors also learnt about job evaluation methodology (HAY scoring).

Experts were offered Valmentava tiimiläinen training. Other areas studied, were public procurements, pension reform and Keva's compliance activities. Intranet renewal and the deployment of the case management system were also high on the agenda in personnel training during the autumn.

A diverse array of communications training was arranged. During the year, experts practiced their presentation and negotiation skills, good bureaucratic language and also studied social media channels and means.

An Office software skills survey was conducted at the start of the year and basic level IT training arranged on that basis. Training created a foundation to migrate to the Office 2016 version.

A personnel survey was conducted in November and for the sake of comparison, the survey was the same as that conducted in 2014. The overall survey result was good and 67% of all grades given were positive. This was an improvement of 5% compared to the previous year. The best scores in terms of theme were supervisory work (4.1 on a scale of 1-5), workplace community questions (3.94) and questions relating to own work (3.92).

The performance review model remained unchanged, with each Keva employee being set four personal goals. In addition, the achievement of the previous year's goals was discussed.

Keva provides its personnel with comprehensive occupational healthcare services, supports work wellbeing through, for example, various personnel clubs and provides monetary support to encourage employees to exercise in their free time. Keva has an active support model in place to maintain work capacity.

## IT management

In line with Keva's strategy, the development of electronic services formed the focus of IT management. Spring 2015 saw the introduction of a new electronic pension application service for employee customers. In addition, new features to improve transactions were brought into use in the personal pension information service. The employer customers' online employer contributions management service was expanded. A new online service for small-size employers was rolled out for notifications to the employment relationship register.

Keva's intranet was renewed to improve information flow and to improve the effectiveness of work processes and document management. A new case management system was also brought into use during the year.

The focus in the development of pension systems during 2015 was on implementation of the amendment to the law

in respect of military pensions and a start on work to change IT information systems as a result of the pension reform entering into force at the beginning of 2017. Changes in the method of calculating military pensions were successfully completed for the pension processing system used by Keva and the background systems maintained Arek Oy.

Administration of the server and workstation environment, helpdesk and the transfer of services to a new provider were completed during spring 2015. Tendering these services resulted in significant cost savings. The user service transition project to transfer services to a new provider was completed to schedule and without any inconvenient disruptions to production.

## Internal control

Internal control refers to the procedures, systems and methods through which Keva's management seeks to ensure efficient, economical and reliable operations. Besides daily supervisory control, risk management, compliance and internal auditing are also key fundamentals of internal control.

### Risk management

#### General development of risk management

The focus in the general development of risk management in 2015 was continuing the rollout of risk management at various levels of the organisation.

Monitoring and reporting procedures in the risk management process, as well as the related technical support were further improved and documentation was supplemented. Risk surveys were reported to the CEO and Management Group at six-month intervals.

In order to further improve data security and data protection, Keva continued to develop security principles and processes. Keva regularly tested the data security level of IT systems through data security audits.

Aspects improved in Investment Operations' risk management included risk reporting, authority and limit monitoring, investment processes and the associated documentation.

#### Most significant risks

Keva assessed the biggest long-term strategy risk as being a decrease in the number of employees covered by the Local Government Pensions Act and the ensuing significant drop in contribution income. The funding base may be eroded if the number of people insured under the Local Government Pensions Act declines as a result of the incorporation or outsourcing of municipal services. This in turn may give rise to pressure to increase pension contributions. The social and

healthcare reform and the factors of uncertainty surrounding the implications of the new autonomous regions, together with any changes in the ways municipal services are provided further highlight the significance of this risk looking ahead.

Keva also estimates that if the long-term return on investments remains below the target level specified in the investment strategy, this could constitute a major strategic risk. The target level is defined based on the financing situation in the earnings-related pension system at any given time. From the investment perspective, the market environment remained challenging. The capital-weighted, long-term real return on investments between 1988 and 2015 was 4.0%.

Keva assesses the medium-sized strategic risks as being related to pension institution management and administration and to public image. The review and reform of the management system and leadership culture launched in 2014 continued during 2015.

The most significant operative risks related to the personnel, operating process and IT systems.

### Market and liquidity risks

The fluctuation of market values is a short-term investment risk, which can be depicted with the Value-at-Risk (VaR) figure. The VaR figure for Keva's investments calculated on the basis of monthly returns over a two-year period was EUR 1,223 million at year-end 2015. This means that with a 97.5% probability, this is the biggest possible loss on the entire investment portfolio within the time span of one month. The VaR figure at the end of the previous year was EUR 606 million. The VaR figure has shown a slight rise (6.0%) compared to 2014 (3.7%).

Since Keva's contribution income exceeded pension expenditure, liquidity risk was of minor significance.

### Contingency plans

In order to ensure that Keva's operations continue without disruption, the Board of Directors has approved a general contingency plan for the whole of Keva, as well as supplementary contingency plans for each function approved by the Management Group.

### Compliance function

During the report year, Keva launched an independent Compliance function. Compliance function refers to the legal compliance of operations and ensuring and overseeing that compliance with external and internal rules relating to Keva's operations. The Compliance function seeks to ensure the adoption of a compliant operating culture across the organisation. In addition, it will support the Board of Directors, management and business in ensuring reliable governance, well-functioning, adequate internal control and in tracking

legislative initiatives. The Compliance function is a charter adopted by the Board of Directors.

### Insider guideline

Keva has in place insider guidelines confirmed by the Board of Directors.

### Internal auditing

The Internal Auditing function's activities are based on the operating plan for internal auditing confirmed each year by the Board of Directors. In accordance with the internal audit charter, the function reports to the CEO and, where necessary, directly to the Board, on audits performed during the year and the conclusions drawn.

## Outlook

Since the passing of legislation, work progressed with the earnings-related pension scheme reform entering into force in 2017 by upgrading the systems, customer advice and developing handling processes for new forms of pension.

The impact of the pension reform will be reflected in a slowdown in the rise of pension costs in public sector pension schemes. Since, however, there is not yet any clear idea of the future development of the payroll, it is still too early to assess the future level of contributions in the local government pension system in future years. In early 2016, the labour market organisations are negotiating possible replacement of the government's competitiveness pact. Assessments of the payroll implications in the wake of the upcoming restructuring of social and healthcare services and regional administration are still on unsteady ground since their funding and in particular the way choice will be implemented have yet to be defined. Calculations and estimates will be made of the payment level by summer 2016, once the guidelines for the social and healthcare services and regional administration reform have been drawn up.

The reform of social and healthcare services highlights the individual's freedom of choice in basic level services. The implications of this freedom choice on the funding of the local government pensions system depends on how it is carried out, for example, the service voucher model could quite quickly reduce the share of publicly provided services and thus in turn the also the payroll in the local government pension system.

Social and healthcare services reform will have deep-seated impact on the entire local government sector. Employees from municipalities, joint municipalities and state regional administration will transfer to the employ of the autonomous social and healthcare regions to be established at the beginning of 2019. Some estimates suggest around 10,000

State employees and around half of the 525,000 persons insured under the local government pensions system would transfer to the employ of these new autonomous regions.

Several new solutions will undoubtedly be explored and implemented in service provision, and the private sector is likely to continue to expand strongly into the extensive municipal services market.

The earnings-related pensions system is involved in a project headed by the tax authorities to develop an income register. The lead idea behind the project is to make it easier for employers to submit reports. Viewed from the earnings-related pension system angle, the project includes many challenges and compromises, but once implemented it may well radically reshape the operations of earnings-related pension institutions and also spawn new types of services.

It is currently believed that in the next 2-3 years, the local government pension systems will switch over to using the proceeds from its funds to pay out pensions. This will bring about a new phase in investment operations as the convertibility of investments into cash grows more important.

For the investor of pension funds, the coming years seem to bring only further challenges. Developments in the global economy have a huge impact on the returns of Keva's investments. The global economy is likely to continue growing, albeit at a considerably slower rate than the one we had grown accustomed for before the financial crisis. It is difficult to form a view of overall development in the coming years. While a rise in interest rates would eat into the attractiveness of fixed-income investments, it is difficult to predict when such a rise would take place. Slowing economic growth of the emerging markets has also added to the uncertainties surrounding equities. In addition, tightening liquidity by the central banks will impact the capital markets and the riskier asset classes. It is indeed likely that we are entering an era of greater uncertainty and lower returns than earlier in investment operations.

## Annex: Pension Act specific tables

<b>Number of KuEL pension applications received by pension benefit</b>			
Pension benefit	2015	2014	Change, %
Old-age pensions	18,027	16,766	7.5
Full disability pensions	13,818	13,691	0.9
Partial disability pensions	7,718	7,248	6.5
Survivors' pensions	2,715	2,733	-0.7
Part-time pensions	1,674	1,256	33.3
<b>Total</b>	<b>43,952</b>	<b>41,694</b>	<b>5.4</b>

<b>Number of VaEL pension applications received by pension benefit</b>			
Pension benefit	2015	2014	Change, %
Old-age pensions	6,833	6,680	2.3
Full disability pensions	1,957	2,053	-4.7
Partial disability pensions	1,101	1,021	7.8
Survivors' pensions	2,689	2,753	-2.3
Part-time pensions	509	429	18.6
<b>Total</b>	<b>13,089</b>	<b>12,936</b>	<b>1.2</b>

<b>Number of KiEL pension applications received by pension benefit</b>			
Pension benefit	2015	2014	Change, %
Old-age pensions	837	814	2.8
Full disability pensions	519	488	6.4
Partial disability pensions	155	167	-7.2
Survivors' pensions	171	149	14.8
Part-time pensions	44	15	193.3
<b>Total</b>	<b>1,726</b>	<b>1,633</b>	<b>5.7</b>

<b>Number of KelaL pension applications received by pension benefit</b>			
Pension benefit	2015	2014	Change, %
Old-age pensions	204	172	18.6
Full disability pensions	84	90	-6.7
Partial disability pensions	142	107	32.7
Survivors' pensions	43	30	43.3
Part-time pensions	23	16	43.8
<b>Total</b>	<b>496</b>	<b>415</b>	<b>19.5</b>

<b>Total processing time (days) of pension applications and service level in 2015</b>					
Pension benefit	KuEL	VaEL	KiEL	KelaL	Private institutions
Disability pensions	38	39	42	34	63
Old-age pensions	23	22	24	23	46
Part-time pensions	19	23	19	14	53
Survivors' pensions	10	9	22	8	21
Rehabilitation promises	13	15	14	12	32
Service level	93.2	94.8	92.1	93.0	-

Source of processing times: Finnish Centre for Pensions

<b>Number of persons retiring by pension benefit in 2015</b>				
Pension benefit	KuEL	VaEL	KiEL	KelaL
Old-age pension	9,870	4,540	470	129
Full disability pension	866	165	49	4
Full rehabilitation support	1,648	243	59	12
Partial disability pension	2,181	291	38	39
<b>Total</b>	<b>14,565</b>	<b>5,239</b>	<b>616</b>	<b>184</b>

<b>Average age of persons retiring by pension type in 2015</b>				
Pension benefit	KuEL	VaEL	KiEL	KelaL
Old-age pension	64.1	62.5	64.3	64.6
Full disability pension	58.3	57.8	57.8	58.2
Full rehabilitation support	48.7	50.7	48.6	46.5
Partial disability pension	56.1	57.0	57.1	52.2
<b>Total</b>	<b>60.8</b>	<b>61.5</b>	<b>61.9</b>	<b>60.6</b>

<b>Percentage of applications rejected in 2015</b>					
Pension benefit	KuEL	VaEL	KiEL	KelaL	Private institutions
New disability pension	21.8	17.6	26.1	24.7	30.8
Rehabilitation	13.3	13.3	16.3	23.5	20.3

Source: Finnish Centre for Pensions

<b>Pension decision rectification procedure 2015</b>				
	KuEL	VaEL	KiEL	KelaL
<b>Self-rectified by Keva</b>				
No. of complaints concerning Keva's decisions	1,050	257	48	9
% of all complaints rectified	10.8%	17.9%	10.4%	0.0%
No. of complaints concerning work ability assessment	835	138	34	7
% of complaints rectified concerning work ability assessment	8.3%	13.8%	8.8%	0.0%
No. of complaints concerning decisions by the Pension Appeal Board	205	57	11	1
% of all complaints rectified	0.5%	1.8%	0.0%	0.0%
No. of complaints concerning work ability assessment	182	42	10	1
% of complaints rectified concerning work ability assessment	0.5%	2.4%	0.0%	0.0%
<b>Decisions by appeal bodies</b>				
No. of appeals resolved by the Pension Appeal Board	952	224	19	-
Changes made, %	8.8%	5.8%	5.3%	-
No. of appeals resolved by the Insurance Court	250	75	10	-
Changes made, %	10.8%	10.7%	20.0%	-

# Administration 2015

## Council in 2013–2016

Regular members	Personal deputies	Regular members	Personal deputies
Chairman, Mr Harri Jokiranta Seinäjäki	Ms Pilvi Torsti Helsinki	Mr Saku Linnamurto Savonlinna	Mr Pekka Leskinen Leppävirta
Deputy Chairman Ms Maarit Ojavuo Kajaani	Mr Risto Ervelä Sauvo	Ms Marja Lounasmaa Kunta-alan unioni ry	Ms Päivi Ahonen Kunta-alan unioni ry
Ms Miia Antin Hattula	Ms Jonna Heikkilä Nakkila	Mr Leo Lähde Nokia	Mr Hannu Kokko Vantaa
Ms Diana Bergroth-Lampinen Pori	Mr Jukka Nyberg Kouvola	Mr Juhani Nummentalo Salo	Mr Ismo Pöllänen Imatra
Ms Christina Båssar Korsnäs	Mr Christian Sjöstrand Helsinki	Mr Lauri Nykänen Tornio	Ms Virpi Takalo-Eskola Oulainen
Ms Piia Flink-Liimatainen Äänekoski	Mr Tommy Björkskog Naantali	Ms Helena Ojennus Parkano	Mr Simo Riuttamäki Huittinen
Mr Keijo Houhala KTN ry	Ms Leila Lehtomäki KTN ry	Ms Silja Paavola KoHo ry	Mr Jukka Maarianvaara KoHo ry
Ms Riitta Jakara Orivesi	Mr Toni Eklund Turku	Mr Markku Pakkanen Kouvola	Ms Pauliina Takala Muurame
Ms Paula Juka Muhos	Mr Jaakko Uuksulainen Kitee	Ms Terhi Peltokorpi Helsinki	Mr Topi Heinänen Ruokolahti
Mr Harri Kerijoki Heinola	Ms Maarit Markkula Köyliö	Ms Ulla Perämäki Muurame	Mr Markku Turkia Mikkeli
Mr Niko-Tapani Korte Kuopio	Ms Sinikka Hälli Joensuu	Mr Antti Rantalainen Hyvinkää	Mr Arto Ojala Kemijärvi
Mr Markku Koski Sievi	Ms Kirsi Torikka Savonlinna	Mr Aki Räisänen Kajaani	Ms Maija Jakka Vihti
Ms Outi Kuismin Oulu	Ms Marja Lähde Oulu	Mr Jorma Räsänen Kaavi	Ms Minna Sarvijärvi Ylöjärvi
Mr Petri Lindroos JUKO ry	Mr Simo Kekki JUKO ry until November 1, 2015	Ms Tiina Sarparanta Kajaani	Ms Salla Rundgren Vaasa
	Mr Jarmo Niskanen JUKO ry from November 1, 2015	Ms Pia Sääsäki Askola	Mr Jorma Liukkonen Kouvola
		Ms Elise Tarvainen Saarijärvi	Ms Aulikki Sihvonon Kontiolahti



## Board in 2015–2016

### Regular members

Chairman  
Ms Anna-Kaisa Ikonen  
Tampere

Deputy Chairman  
Mr Kari Nenonen  
Vantaa

Ms Heini Jalkanen  
Naantali

Mr Risto Kangas  
JUKO ry

Ms Sallamaari Muhonen  
Helsinki

Ms Päivi Niemi-Laine  
Kunta-alan Unioni ry

Mr Juha Rehula  
Hollola  
until June 1, 2015

Mr Markus Lohi  
Rovaniemi  
from September 24, 2015

Mr Harri Virta  
Tammela

Mr Raimo Vistbacka  
Alajärvi

### Personal deputies

Ms Saija Äikäs  
Espoo

Ms Tarja Filatov  
Hämeenlinna

Mr Juha Kuisma  
Lempäälä

Ms Anne Sainila-Vaarno  
KoHo ry

Mr Jani Moliis  
Helsinki

Mr Rauno Vesivalo  
KoHo ry

Ms Tuula Partanen  
Lappeenranta

Ms Oili Heino  
Pori

Ms Marke Tuominen  
Äänekoski

## Investment Advisory Committee in 2015–2016

### Members

Chairman  
Mr Seppo Juntti

Deputy Chairman  
Ms Terttu Savolainen

Ms Ritva Fransman

Ms Tuulia Hakola-Uusitalo

Ms Marja Isomäki

Ms Minna Martikainen

Mr Jouko Narikka

Mr Kari Parkkonen

Mr Mika Periaho

Mr Olavi Ruotsalainen

### Personal deputies

Ms Jonna Sillman-Sola

Ms Sinikka Malin

Mr Tero Ristimäki

Mr Tuomo Mäki

Ms Auli Valli-Lintu

Mr Matti Keloharju

Mr Juha Majanen

Ms Tiina Ingman

Mr Jan Saarinen

Ms Sisko Seppä

## Workplace Development Committee in 2015–2016

### Members

Chairman  
Mr Aki Lindén

Mr Kari Hakari

Mr Tapani Hellstén

Mr Risto Kangas

Mr Jukka Kauppala

Ms Marja Lounasmaa

Mr Jukka Maarianvaara

Ms Helena Metsälä

Ms Anne Mironen

Ms Merja Paananen

Mr Tapio Ropponen

Ms Anne Sainila-Vaarno

Secretary  
Mr Pauli Forma

## Organisation 31 December 2015

Acting CEO, Managing Director  
Mr Tapani Hellstén

Internal Auditing  
Internal Auditing Manager  
Mr Anssi Vesalainen

### Customer Relationship Management

Deputy CEO  
Mr Kimmo Mikander

CRM Unit  
Customer Relationship Manager  
Ms Jaana Kekäläinen

CRM Development Unit  
Customer Relationship Development Manager  
Mr Tero Manninen

Advisory Services  
Customer Services Manager  
Ms Taina Uronen

### Pension and Working Life Services

Deputy CEO  
Mr Tapani Hellstén

Pensions Unit  
Pensions Director  
Ms Eija Korhonen

Disability Decisions Unit  
Acting Pensions Director  
Ms Merja Paananen

Insurance Medicine and Rehabilitation Unit  
Director of Medical Affairs  
Mr Tapio Ropponen

Working Life Services Unit  
Director, Working Life Services  
Mr Pauli Forma

### Investments

CIO  
Mr Ari Huotari

Internal Equity Unit  
CIO, Internal Equity  
Mr Fredrik Forssell

External Equity Unit  
CIO, External Equity  
Ms Maaria Eriksson

Alternative Investments Unit  
CIO, Alternative Investments  
Mr Markus Pauli

Real Estate Unit  
Director, Real Estate  
Mr Petri Suutarinen

Loans and Investment Management Unit  
CIO (secondary duty)  
Mr Ari Huotari

### Financing, Financial and Risk Management

CFO  
Mr Tom Kåla

Pension Payments Unit  
Pensions Director  
Ms Anneli Kajas-Pätäri

Financial Unit  
Financial Manager  
Mr Olli Pasanen

Securities Administration Unit  
Head of Securities Administration  
Ms Johanna Haukkoavaara

Middle Office Unit  
Head of Middle Office  
Mr Juha Soininen

Financing Unit  
Director of Finance  
Mr Allan Paldanius

Risk Management  
Head of Risk Management  
Ms Päivi Alanko

### Shared Services

Information Technology Director  
Ms Paula Sivunen

HR Unit  
HR Manager  
Ms Tuula Kivi

Communications Unit  
Communications Manager  
Mr Jouni Kempas

Internal Services Unit  
Work Environment Manager  
Ms Kristina Vuorela

Legal Affairs Unit  
Director of Legal Affairs  
Ms Karoliina Kiuru

IT Unit  
Information Technology Director  
Ms Paula Sivunen

The background is a solid teal color with several large, overlapping, curved shapes in lighter shades of teal, creating a sense of depth and movement. These shapes are positioned in the upper and middle portions of the page, leaving the bottom portion clear for text.

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